Saxon

PETROLEUM INC.

ANNUAL REPORT • 1994

CORPORATE PROFILE

Saxon Petroleum Inc. is a Calgary based, junior exploration company with expanding oil and gas operations in western Canada.

Saxon commenced active operations in March 1990. The Company's principal reserves and producing properties are located in three core project areas in western and northwestern Alberta at Pembina, Bigoray and Kaybob South.

Saxon will continue to pursue growth primarily through a balanced program of acquisitions, development and exploration. The Company's reserves and production profile at December 31, 1994 consisted of 33% natural gas and 67% crude oil and natural gas liquids.

The Company's common shares trade on The Alberta Stock Exchange under the symbol "SXN".

ANNUAL MEETING OF SHAREHOLDERS

Shareholders are encouraged to attend Saxon's Annual General Meeting of Shareholders which will be held on Tuesday, June 6, 1995 at 3.00 p.m. at The 400 Club, in the Main Dining Room (second level), located at 710 - 4th Avenue, S.W., Calgary, Alberta. Those unable to attend are requested to complete and return the Proxy Form.

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ABBREVIATIONS

ARTC - Alberta Royalty Tax Credit
Bbls - barrels
MBbls - thousand barrels
BOPD - barrels of oil per day
Mcf - thousand cubic feet
MMcf - million cubic feet
Bcf - billion cubic feet
BOE - barrel of oil equivalent
/d - per day
MBOE - thousand barrels of oil equivalent
MMBTU - Millions of British Thermal Units
NGL - natural gas liquid
Natural gas is equated to oil on the basis of: 10 Mcf = 1 barrel of oil equivalent.

	1994	1993	% Change
FINANCIAL *($ thousands, except per share)*			
Petroleum and natural gas sales	**12,648**	4,929	+ 157
Cash flow from operations	**5,170**	1,378	+ 275
Per share *(basic)*	**0.15**	0.05	+ 200
Per share *(fully diluted)*	**0.12**	0.05	+ 140
Net income	**1,129**	163	+ 593
Per share *(basic and fully diluted)*	**0.03**	0.01	+ 200
Capital expenditures *(net of disposals)*	**22,297**	10,822	+ 106
Weighted average common shares outstanding *(thousands)*			
Basic	**35,638**	27,794	+ 28
Fully diluted	**42,769**	29,851	+ 43
Common shares outstanding *(December 31) (thousands)*			
Basic	**41,536**	33,457	+ 24
Fully diluted	**49,720**	36,582	+ 36
OPERATING			
PRODUCTION			
Crude oil			
Barrels per day *(average)*	**1,018**	434	+ 135
Average selling price *($ Cdn per barrel)*	**20.75**	19.70	+ 5
Barrels per day *(exit)*	**1,345**	626	+ 115
Natural gas			
Thousand cubic feet per day *(average)*	**7,143**	2,433	+ 194
Average selling price *($ Cdn per thousand cubic feet)*	**1.89**	1.99	- 5
Thousand cubic feet per day *(exit)*	**8,942**	4,130	+ 117
RESERVES (proved and probable)			
Crude Oil and NGL's *(thousands of barrels)*	**6,880**	3,541	+ 94
Natural gas *(millions of cubic feet)*	**33,199**	16,728	+ 98
Present value of reserves *($ thousands, discounted at 15% before tax)*	**49,609**	29,315	+ 69
WELLS DRILLED			
Gross	**106**	42	+152
Net	**14**	7	+ 100
STOCK MARKET			
Price range *($ per share)*			
High	**0.68**	0.65	
Low	**0.35**	0.10	
Close	**0.53**	0.42	+ 26
Volume *(thousands)*	**16,422**	23,885	- 31
Market capitalization *($ thousands at year end)*	**22,014**	14,052	+ 57

TO THE SHAREHOLDERS:

We are pleased to present the 1994 Annual Report of Saxon Petroleum Inc. During the year, the Company continued to build upon the impressive growth of 1993. Two acquisitions in 1994 provided significant increases in oil and natural gas reserves. Net financings of $16,900,000 were arranged by the forward sale of oil and gas reserves. The acquisitions and the use of forward hedging activities enabled Saxon to increase the Company's reserves while reducing exposure to the volatility of oil and natural gas prices.

The Company had set ambitious targets for 1994. Despite gas prices declining sharply in the fourth quarter and equipment delays causing deferred drilling and production tie-ins, the financial results for the year are excellent and, by March 1995, Saxon's daily production exceeded the 2800 BOE/d exit target for 1994.

Review of 1994

In 1994, Saxon's activity was divided into development operations in the winter season and asset acquisitions in the summer. During the year, the Company participated in a record number of wells (106) and continued to place new oil and gas reserves on production rapidly, thus maximizing current revenues. Drilling was concentrated in the Company's three core areas.

Effective April 1, 1994, Saxon acquired certain assets in the Bigoray area of Alberta, adding proven reserves of 10.2 Bcf of natural gas and 642,000 barrels of oil and liquids. This purchase creates a new core area for the Company and includes varying interests in 23 sections of land, production of 200 BOPD and 3 Mcf/d, and a gas plant capable of processing 5 Mcf/d.

In a separate transaction, Saxon purchased interests in properties at Stettler and Kaybob South, in Alberta, adding proven reserves of approximately 275,000 barrels of oil and 2.0 Bcf of natural gas.

Highlights of 1994 Operations Include:

- Continued development of the Company's light oil reserves at Pembina.
- The discovery and tie-in of new high deliverability gas reserves at Kaybob South, which led to the drilling of a second test well early in 1995.

The establishment of new core areas continues the Company's efforts to concentrate its resources in areas offering larger, long-life reserves. The majority of these properties are operated by Saxon, which allows the Company to control costs, determine the pace of development and to maximize profitability.

Increasing funds from operations and secured prepaid forward sales of oil and gas permitted the Company to increase its original capital budget from $15.0 million to $24.4 million. The financial results of Saxon's 1994 activities are summarized below.

Financial Highlights of 1994 Include:

- Petroleum and natural gas sales increased 157% to $12.6 million.
- Cash flow from operations increased 275% to $5.2 million, or $0.15 per share.
- Earnings increased 593% to $1.1 million, or $0.03 per share.
- Issued rights at $0.56 per share to shareholders, raising $2.4 million of equity.
- Completed secured prepaid oil and gas contracts for $16.9 million.
- Completed flow-through share financing of $1.9 million.

Operational Highlights for 1994 Include:

- Average daily gas production increased 194% to 7.1 Mcf/d.
- Average daily oil production increased 135% to 1,018 BOPD.
- Proved and probable oil reserves increased 94% to 6.9 million Bbls of oil.
- Proved and probable natural gas reserves increased 98% to 33.2 Bcf.
- Year end production approached 2,300 BOE/d, of which 60% is oil and 40% is natural gas.

Saxon achieved record operational and financial results in 1994.

Return on equity increased fourfold to 10.6% in 1994, despite sharply increased depletion charges.

In 1994, depletion and depreciation increased to $5.94 per BOE from $3.14 in 1993. This increase is principally attributable to the Bigorary acquisition. The required program of drilling and recompletion of Bigoray wells is scheduled to commence in 1995. Management is confident that, as the revitalization of the Bigoray properties continues, the depletion rate will decline.

Operating costs have been reduced to $6.56 per BOE, reflecting increased production and fewer workovers in 1994. As the majority of the Company's oil is produced from mature properties under waterflood, management considers the current operating costs to be reasonable.

The growth achieved by Saxon in 1994 has placed the Company in a strong position entering 1995. With cash flow increasing and financing available, Saxon is proceeding with aggressive plans for 1995.

Notwithstanding Saxon's twofold increase in oil and natural gas reserves in 1994, management believes that certain price and production assumptions used by the Company's third party engineers are very conservative.

Strategy and Philosophy

Saxon is convinced that operational control, high working interests, core project areas and long-life reserves are keys to success. To date, our asset base has developed from a strategy of acquiring underdeveloped properties, which exhibited opportunities to be upgraded, using innovative financing. Saxon will continue the proven corporate goals and philosophies which have resulted in the impressive growth of the past two years.

Production Optimization

The Company recognizes that certain of its properties present opportunities for secondary recovery. In Pembina, substantial oil reserves can be recovered by increasing well density and by waterflood. Studies are continuing to determine the most efficient way of realizing these additional reserves.

Financial Strategy

Saxon has utilized a careful program of secured prepaid production contracts and hedges to finance acquisitions and to lock-in production revenues. Care is taken to ensure that these contracts are backed by oil and gas production.

The Saxon Team

The success of any organization is a reflection of the quality and dedication of its employees. This is particularly true of a company which is growing rapidly. Saxon recognizes that each of its 14 employees has contributed to the successes of the past two years. We also acknowledge the contribution of the consultants who provide their services to Saxon.

We welcome the recent appointment of William A. Brebber, C.A., to the position of Treasurer and Chief Financial Officer.

Finally, the experience and governance your Board of Directors provides is a major benefit to Saxon and our shareholders.

Outlook

The present volatility in natural gas pricing makes planning and forecasting difficult. However, management is confident that financing can be arranged for promising acquisitions and that the strategies which have proven to be successful can be maintained. In addition, wells awaiting hook-up and development projects in progress should ensure that the pace of growth in revenue will continue.

We are convinced that, in spite of the current low gas prices, opportunities are excellent and that with the prudent use of funds, Saxon will be recognized as a strong and profitable company.

On behalf of the Board of Directors

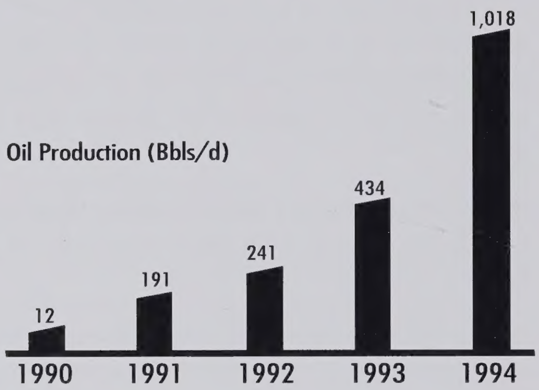
Hugh J Davis

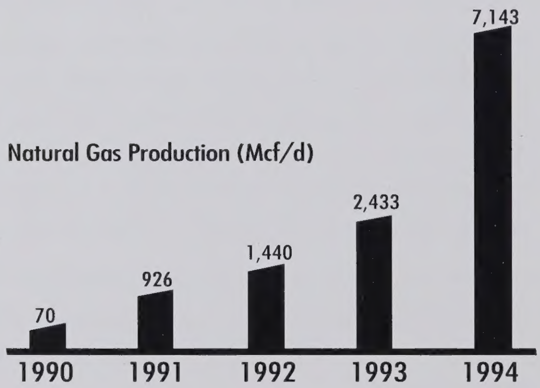
Hugh J. Davis
Chairman of the Board

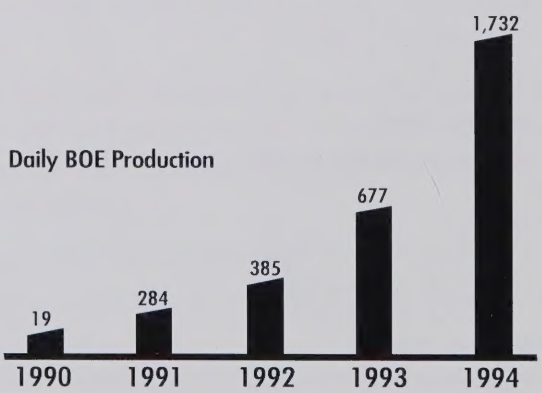
G A Tarrant

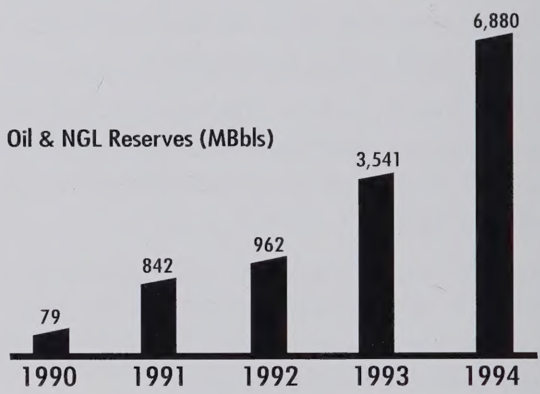
Glen A. Tarrant
President and Chief Executive Officer
March 21, 1995

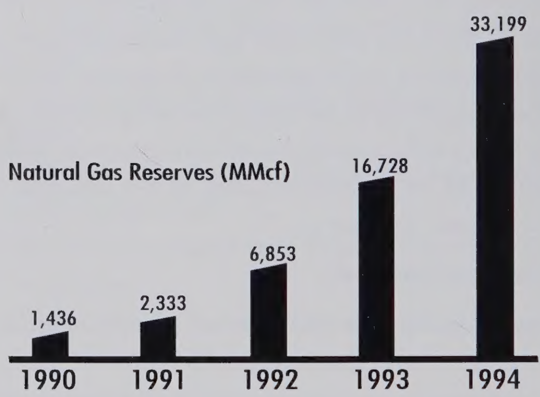
OPERATING HIGHLIGHTS











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PETROLEUM INC.

LAND HOLDINGS

During 1994 Saxon added significantly to its undeveloped land base through acquisitions, Crown land sales and by farmin drilling commitments.

In addition to the Alberta land holdings shown below, the Company has approximately 1,115 net acres (18,960 gross acres) in Saskatchewan, located principally in Eagle Lake.

Land Holdings At December 31, 1994 *(Acres)*

	Undeveloped		Developed		Total	
Alberta	Gross	Net	Gross	Net	Gross	Net
Pembina	-	-	10,720	8,411	10,720	8,411
Bigoray	6,400	4,446	8,640	5,446	15,040	9,892
Kaybob	6,720	2,512	6,400	2,048	13,120	4,560
Nipisi	960	516	160	160	1,120	676
Other	2,720	1,411	58,820	22,065	61,540	23,476
Total	16,800	8,885	84,740	38,130	101,540	47,015

DRILLING ACTIVITY

In 1994, Saxon participated at an average interest of 13% in the drilling of 106 wells resulting in 9 gas wells, 95 oil wells and 2 dry holes, for a success ratio of 98%. Saxon was the Operator of 9 of these wells with an average interest of 94%, resulting in 6 oil wells, 2 gas wells and 1 dry hole.

By comparison, Saxon participated at an average interest of 15% in the drilling of 42 wells during 1993, resulting in 3 gas wells, 38 oil wells and 1 dry hole, for a success ratio of 98%.

Drilling Results

	Exploratory Wells		Development Wells		Total Wells	
	Gross	Net	Gross	Net	Gross	Net
1993						
Gas	1	1	2	2	3	3
Oil	-	-	38	2.6	38	2.6
Dry and abandoned	1	1	-	-	1	1
Total	2	2	40	4.6	42	6.6
1994						
Gas	-	-	9	2.6	9	2.6
Oil	-	-	95	10.7	95	10.7
Dry and abandoned	2	0.5	-	-	2	0.5
Total	2	0.5	104	13.3	106	13.8

"Gross Wells" means the number of wells in which Saxon had a working interest.

"Net Wells" means the sum of the individual working interests in all gross wells in which Saxon had a working interest.

CORE PROJECT ACTIVITY

Saxon explores and develops oil and natural gas properties in central Alberta and western Saskatchewan. The Company endeavours to act as Operator of its properties in order to control costs, determine exploration and development pace, and achieve higher netbacks per BOE. The corporate strategy has been to acquire (through acquisition and farmin) large working interests in properties that are underdeveloped and offer considerable potential for infill drilling, enhanced recovery and improved economies of scale. In prior years, Saxon focused on developing shallow gas reserves in southern Alberta to provide immediate cash flow. This focus has shifted to exploring for deeper, longer term reserves in central Alberta at Pembina, Kaybob South and Bigoray.

During 1994, the Company participated in 106 wells (13.8 net) resulting in 10.7 net oil wells, 2.6 net gas wells and 0.5 abandonments. The three main project areas were Pembina (5 oil wells: 5 net), Kaybob South (1 gas well: 0.5 net) and Dodsland (89 oil wells: 4.3 net).

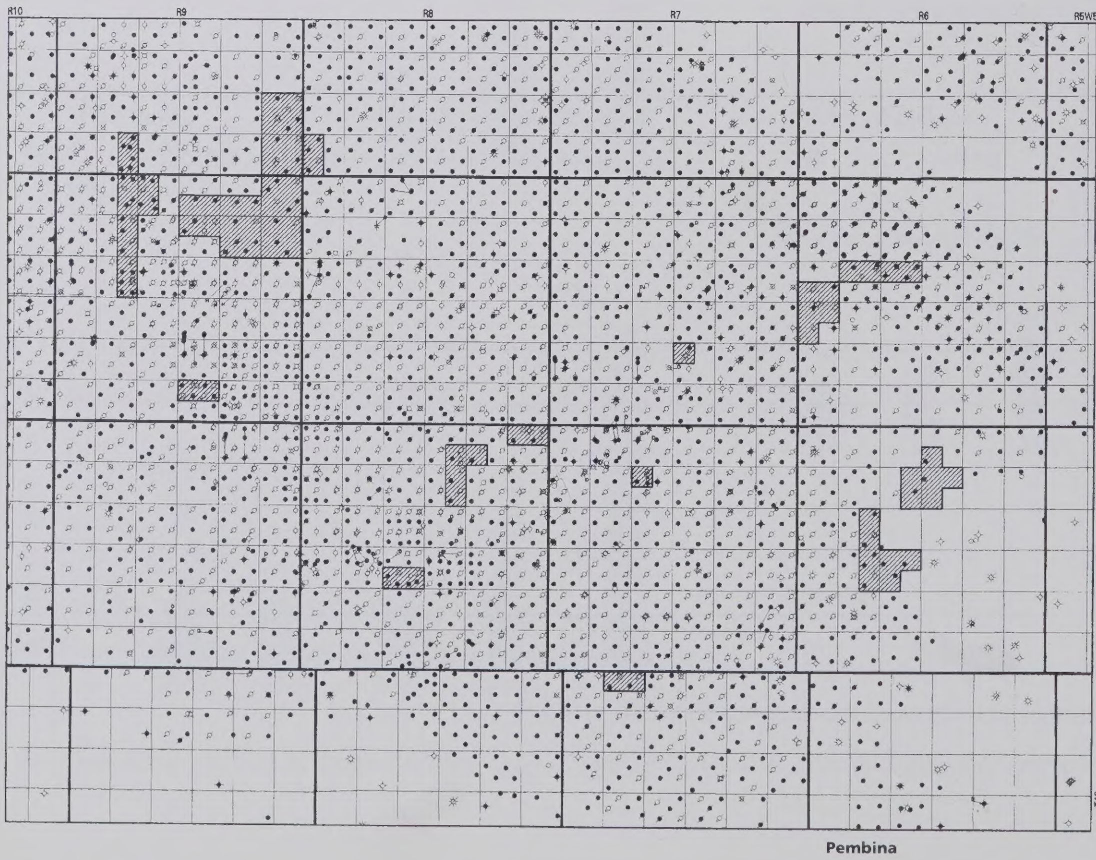
In 1994, development drilling and the acquisition of core blocks in the Bigoray and Kaybob South areas resulted in significant reserve additions. Development opportunities in these areas should allow the Company to maintain a high level of growth in 1995.

Pembina, Alberta

Saxon owns several producing oil properties in the Pembina area of central Alberta. Wells in the area produce into several centralized batteries operated by the Company. Production is from the Cardium formation with wells initially producing up to 200 BOPD of light 38° API gravity oil. A typical well declines to 30-50 BOPD and continues to produce at that rate for a number of years.

Highlights of 1994 drilling activity include the successful completion of five new oil wells and one recompletion. This program enabled the Company to achieve its objective of increasing net production by 300 BOPD and to exceed our target of 650 BOPD by year end. In December 1994, production averaged 674 BOPD net to Saxon. This area contributed 50% of the Company's total oil production, with production averaging 491 BOPD throughout the year. Pembina has become the Company's most important contributor to cash flow from operations and the positive results in 1994 have encouraged the Company to schedule four additional infill wells and six recompletions throughout 1995. As oil and solution gas production increases, the Company will achieve the desired economies of scale, which will result in lower operating costs and higher netbacks per BOE.

The 1994 drilling and any future development will enable the Company to exploit existing reserves under primary recovery and



Pembina

will be integrated into a planned secondary recovery project in the area. Several precedent waterflood projects in the Pembina area have exhibited recoveries in excess of 40% of reserves in place. The economics of such a plan are very favourable, as demonstrated by our independent engineers who have projected that an additional 1.5 million barrels of oil are potentially recoverable by implementing secondary recovery on our existing lands. The Company has scheduled the commencement of this secondary recovery scheme in 1995, with the installation of one injector well. Four additional injector wells are planned for 1997.

With the historical success of waterfloods in the Pembina field, the Company is confident this field will yield significant additional and new reserves in the years to come, thereby lowering our depletion cost per barrel and adding oil reserves to lengthen the Company's half life in the area from five to eight years. Saxon will continue to maintain its 100% working interest in this program.

Swalwell, Alberta

The Company owns various working interests in 27 wells in the Swalwell area of south central Alberta. Drilling and recompletion activity during late 1993 resulted in increased production to 3.0 Mcf/d and 60 BOPD. Throughout 1994, the Swalwell area contributed over 45% of Saxon's total gas production, with producing wells averaging 3.2 Mcf/d net to Saxon and 44 BOPD. One exploratory well was drilled during the year which resulted in a dry hole.

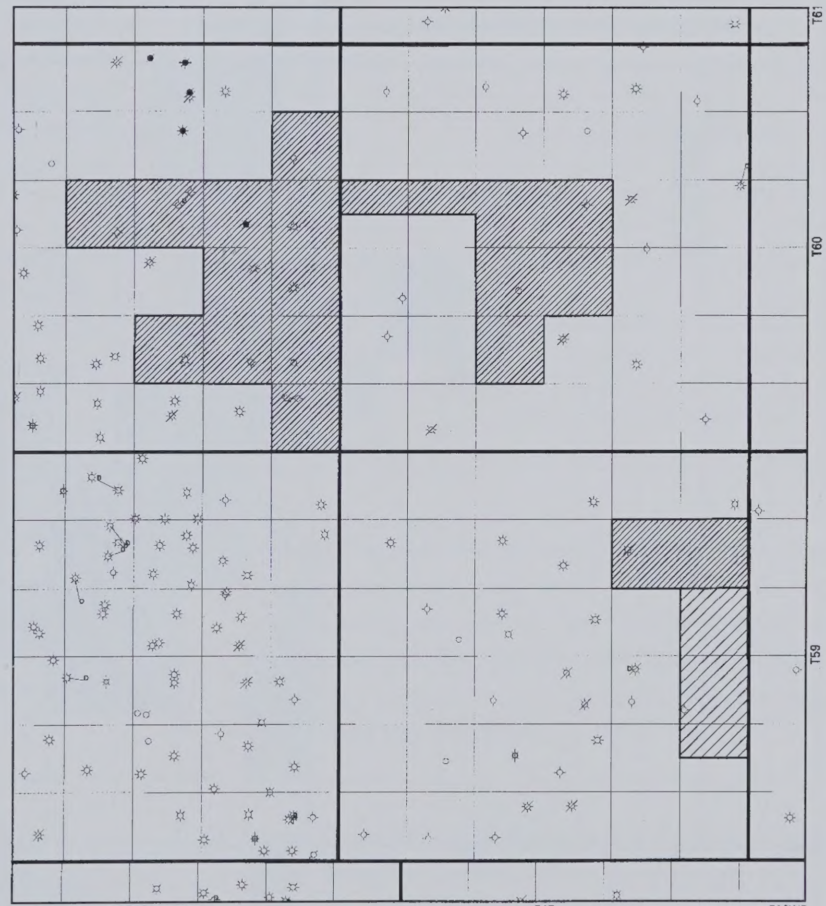
Throughout the year, production declined from several marginal wells as a result of increasing water cuts. Attempts to enhance production by recompletion and stimulation were unsuccessful and additional plans have been curtailed pending the results of pumping equipment which was installed to remove large volumes of produced water.

Due to low gas prices, the Company has temporarily delayed plans for additional work in the area. Despite this delay, Saxon's significant acreage position, along with several identified future locations, ensures that Swalwell will continue to be an area of exploration and development in the future.

Kaybob South, Alberta

In 1994, Saxon acquired a working interest position ranging from 30% to 50% in 17 sections of land and associated production in the gas-prone Kaybob South area of west central Alberta. This acquisition initially added approximately 1 Mcf/d of net production to the Company's daily gas production.

Subsequent to the acquisition, Saxon participated (50%) with a major company in the drilling of a new gas discovery in the region, which flow tested in excess of 5 Mcf/d and was placed on production in January 1995 at an initial



Kaybob South

rate of 3.6 Mcf/d. A second well is currently drilling (Saxon 100%) and is expected to be completed prior to the end of March. At least one additional well is planned for the summer of 1995. This area has significant reserve potential for the Company, with recoveries up to 6 Bcf per section.

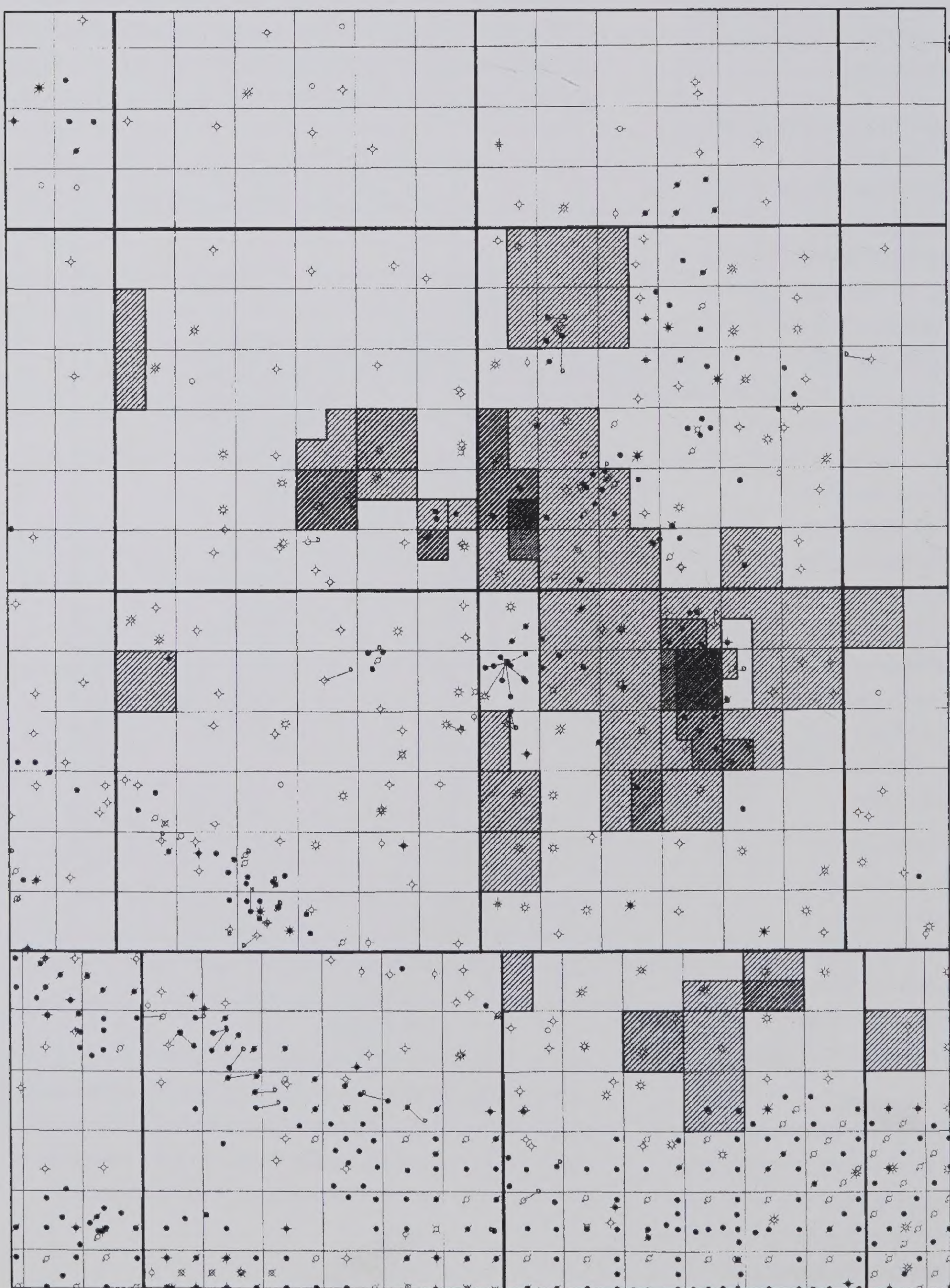
Bigoray, Alberta

Effective April 1, 1994, Saxon acquired varying working interests in 15,040 gross acres (9,892 net acres) in the Bigoray area of west central Alberta. This acquisition included interests in four separate units; three oil and one gas, one of which is now operated by Saxon with an 80% working interest. This property contributed 25% of Saxon's annual gas production and 12% of annual oil production. Net daily production in the fourth quarter was approximately 200 BOPD and 3.3 Mcf/d.

The Bigoray area offers multi-zone potential for excellent quality oil and high deliverability, liquid rich gas reserves. Substantial potential is recognized in the undeveloped lands included in this acquisition. Saxon is in the process of initiating several pooling and participation and/or farmin arrangements which we anticipate will add to our reserves and cash flow.

Enhancement of existing production and reserves began in December 1994 with the recompletion of a gas well in the area. This well was placed on production in January 1995 at rates in excess of 1.2 Mcf/d with associated liquids. A second well, in which Saxon has a 100% working interest, was completed and flow tested 1.6 Mcf/d. This second well is scheduled to be placed on production by the end of the second quarter of 1995.

The Bigoray area has become one of the Company's core areas for exploration, exploitation and development. In 1995, the Company plans to drill five development wells, to recomplete three additional wells, and to investigate additional acquisitions in the area.



Bigoray

Nipisi, Alberta

During the last quarter of 1994 and the first quarter of 1995, Saxon concluded three separate farmin agreements to establish an acreage position in the Nipisi area. The Company is currently testing three wells which were drilled in late 1994 and early 1995.

Dodsland, Saskatchewan

The Dodsland area, located in western Saskatchewan, is comprised of two producing oil units - Eagle Lake Viking Voluntary Unit No. 1 and Gleneath Viking Unit No. 1. Production from these units is light, excellent quality crude oil which commands a premium price per barrel. The Company has a 4.8% working interest at Eagle Lake, where production began in 1958. Infill drilling and restimulation programs have been successful, increasing unit production from 760 BOPD to over 2,200 BOPD. During the year, 60 infill wells (2.9 net) were drilled, increasing 1994 average production to 99 BOPD, net to Saxon.

During 1994, the Company made the decision to divest its unit interest at Gleneath. This decision reflects the Company's ongoing property rationalization program which concentrates on larger working interests which the Company can operate.

OIL AND NATURAL GAS RESERVES

In a report effective December 31, 1994, Fekete Associates Inc. evaluated Saxon's reserves of oil, natural gas liquids and natural gas, all of which are located in Alberta and Saskatchewan. Proved plus probable oil and natural gas liquids reserves increased by 94% to 6.9 million barrels while natural gas reserves climbed 98% to 33.2 Bcf. Reserve additions replaced 1994 production by nine times.

Oil and Natural Gas Reference Price Assumptions

	Edmonton Light Oil ($/Bbl)	Plant Gate Spot Natural Gas ($/Mcf)
1995	23.50	1.25
1996	24.50	1.55
1997	25.55	1.90
1998	26.90	2.00
1999	28.25	2.10

The Fekete Report adjusts these reference prices for quality and transportation to obtain individual wellhead prices.

Oil and Natural Gas Liquids Reserves Based On Escalated Price Assumptions

	Oil and NGL's	
(MBbls)	Gross(1)	Net(1)
Proved Producing	3,579	3,114
Proved Non-Producing	114	84
Proved Undeveloped	1,166	1,030
Total Proved	4,859	4,228
Probable	2,021	1,795
Proved & Probable	6,880	6,023

Natural Gas Reserves Based On Escalated Price Assumptions

	Sales Gas(2)	
(MMcf)	Gross(1)	Net(1)
Proved Producing	15,046	11,388
Proved Non-Producing	7,484	5,932
Proved Undeveloped	1,895	1,389
Total Proved	24,425	18,709
Probable	8,774	6,678
Proved & Probable	33,199	25,387

(1) "Gross" reserves are defined as the total remaining recoverable reserves owned by the Company before deduction of any royalties. "Net" reserves are defined as those accruing to the Company after all interests owned by others including Crown and Freehold royalties have been deducted.

(2) Sales Gas is defined as natural gas reserves remaining after deducting surface losses due to process shrinkage and natural gas used as lease fuel.

Present Worth Value Of Estimated Future Cash Flows Based On Escalated Price Assumptions
(Before tax)

($ thousands)	Undis-counted	10%	15%	20%
Proved				
Producing	61,822	35,052	29,102	24,974
Non-producing	8,195	4,933	4,019	3,350
Undeveloped	14,137	6,045	3,872	2,325
Total Proved	84,154	46,030	36,993	30,649
Probable	57,284	13,398	8,610	5,974
Proved & Probable	141,438	59,428	45,603	36,623
ARTC	6,185	4,529	4,006	3,596
Total	147,623	63,957	49,609	40,219

RECONCILIATION OF CHANGES IN RESERVES

The following tables provide the changes in gross reserves since December 31, 1993

Oil and Liquids

(MBbls)	Proved	Probable	Total
December 31, 1993	3,273	268	3,541
Acquisitions and discoveries	1,611	446	2,057
Dispositions	(313)	-	(313)
Production	(372)	-	(372)
Revisions	660	1,307	1,967
December 31, 1994	4,859	2,021	6,880

Natural Gas

(MMcf)	Proved	Probable	Total
December 31, 1993	13,500	3,228	16,728
Acquisitions and discoveries	16,229	5,260	21,489
Dispositions	(52)	(1)	(53)
Production	(2,607)	-	(2,607)
Revisions	(2,645)	287	(2,358)
December 31, 1994	24,425	8,774	33,199

Barrels Of Oil Equivalent

(MBOE)	Proved	Probable	Total
December 31, 1993	4,623	591	5,214
Acquisitions and discoveries	3,234	972	4,206
Dispositions	(318)	-	(318)
Production	(632)	-	(632)
Revisions	395	1,336	1,731
December 31, 1994	7,302	2,899	10,201

RESERVE LIFE INDEX

Saxon's reserve life index, which relates year end proved reserves to that year's production was 13 years for oil and 9 years for natural gas. Saxon focuses on developing long term reserves to maximize shareholder value and to match production to the prepaid contract obligations.

Saxon

ADDITIONAL INFORMATION

As at December 31, 1994, Saxon owned an interest in 534 (121 net) oil wells, of which 463 (92 net) are producing. Of the 179 (49 net) natural gas wells capable of production in which the Company owns an interest, 150 (28 net) are currently on production.

PRODUCING PROPERTIES

The following tables summarize the average daily net production of the Company's producing properties

Crude Oil and NGL Production

(BOPD)	**1994**	1993	1992	1991
Bigoray	**124**	-	-	-
Pembina	**491**	196	-	-
Stettler	**96**	-	-	-
Swalwell	**44**	51	45	-
Other	**263**	187	196	191
Total	**1,018**	434	241	191

Natural Gas Production

(Mcf/d)	**1994**	1993	1992	1991
Bigoray	**1,803**	-	-	-
Pembina	**686**	463	-	-
Stettler	**244**	-	-	-
Swalwell	**3,234**	1,344	529	-
Other	**1,176**	626	911	926
Total	**7,143**	2,433	1,440	926

On a BOE basis the percentage of production contributed by each core project area in December 1994 was as follows

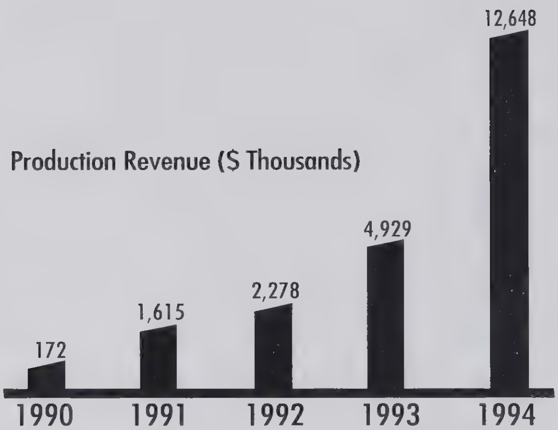
December 1994 Production

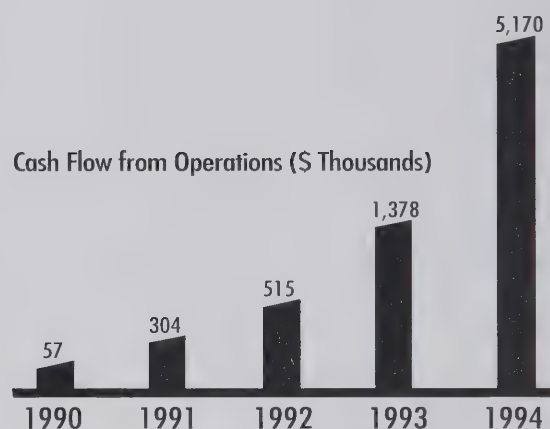
	Oil & NGL's	Natural Gas	BOE per day	%
Bigoray	218	3,295	548	25
Pembina	674	874	761	34
Stettler	129	239	153	7
Swalwell	37	2,568	294	13
Other	287	1,966	483	21
Total	1,345	8,942	2,239	100

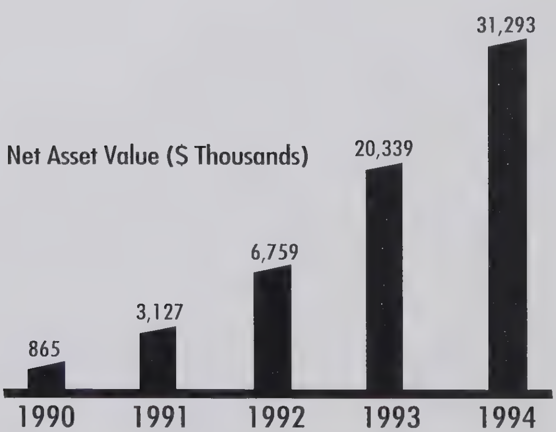
OIL AND NATURAL GAS MARKETING

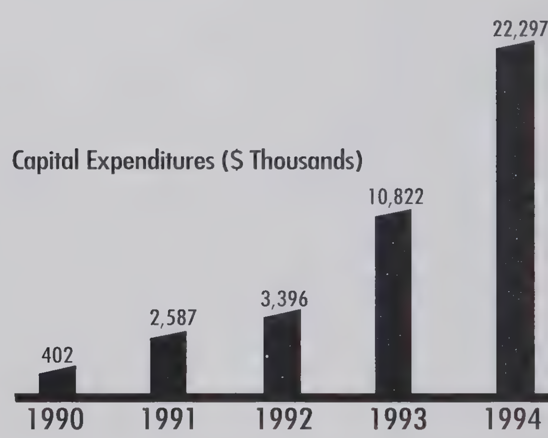
Saxon operates approximately 60% of its oil and liquids production. In cases where a partner operates oil production, we generally take our share of production "in kind", thus exercising direct marketing control in both operated and non-operated oil properties. Saxon's production is medium to light gravity crude and is sold via marketing firms to refiners. Virtually all of the Company's current oil production is subject to long term prepaid contracts or commodity hedges which have locked prices in the range of $17.38 to $23.10 Cdn.

Saxon markets its natural gas production through a mix of long term prepaid contracts, long term contracts and spot market contracts. Sixty percent of our gas production is dedicated to prepaid contracts and longer term contracts with prices ranging from approximately $1.50 to $2.02. Forty percent is sold through marketers to short term spot markets. Saxon intends to reduce the exposure to spot markets over time, depending upon market conditions.


Production Revenue ($ Thousands)
172
1,615
2,278
4,929
12,648
1990
1991
1992
1993
1994


Cash Flow from Operations ($ Thousands)
57
304
515
1,378
5,170
1990
1991
1992
1993
1994


Net Asset Value ($ Thousands)
865
3,127
6,759
20,339
31,293
1990
1991
1992
1993
1994


Capital Expenditures ($ Thousands)
402
2,587
3,396
10,822
22,297
1990
1991
1992
1993
1994

Saxon

1994 FINANCIAL AND OPERATIONS HIGHLIGHTS

- production revenue increased 157% to $12.6 million
- cash flow from operations increased 275% to $5.2 million
- net income increased 593% to $1.1 million
- net capital expenditures increased 106% to $22.3 million
- oil and NGL's production increased 135% to 1,018 BOPD
- natural gas production increased 194% to 7,143 Mcf/d
- oil and NGL reserves increased 94% to 6.9 million Bbls
- natural gas reserves increased 98% to 33.2 Bcf

($ thousands, except per share)	**1994**	1993	1992
Petroleum and natural gas sales	**12,648**	4,929	2,278
Cash flow from operations	**5,170**	1,378	515
Per share (basic)	**0.15**	0.05	0.03
Per share (fully diluted)	**0.12**	0.05	0.03
Net income	**1,129**	163	89
Per share (basic and fully diluted)	**0.03**	0.01	0.01
Capital expenditures	**22,297**	10,822	3,396
Long term obligations	**15,275**	5,030	1,468
Shareholders' equity	**11,810**	7,014	3,843
Return on shareholders' equity	**10.6%**	2.4%	2.4%
Net asset value	**31,293**	20,339	6,759
Per share fully diluted	**0.63**	0.56	0.29
Market capitalization	**22,014**	14,052	3,864

The significant increases in production volumes, revenues and operating cash flow may be attributed to a balanced capital expenditure program comprised of 60% acquisitions and 40% exploration and development.

RESULTS OF OPERATIONS AND DETAILED FINANCIAL ANALYSIS

Production Revenue

Oil and NGL's production increased 135% to an average of 1,018 BOPD during 1994, with revenues increasing 144% to $7.7 million. Similarly, natural gas production increased 194% to 7,143 Mcf/d during 1994 resulting in $4.9 million of revenue in 1994. Acquisitions accounted for 56% of the natural gas production increase and 39% of the increased oil and NGL production.

Oil & Gas Revenues

($ thousands)	**1994**	1993	1992
Oil & NGL's	**7,710**	3,157	1,592
Natural gas	**4,938**	1,772	686
Total	**12,648**	4,929	2,278

Oil & Gas Volumes

	1994	1993	1992
Oil & NGL's (BOPD)	**1,018**	434	241
Natural gas (Mcf/d)	**7,143**	2,433	1,440
Total BOE/d	**1,732**	677	385
Total BOE (000's)	**632**	247	141

Oil & Gas Price

($)	**1994**	1993	1992
Oil & NGL's (per Bbl)	**20.75**	19.70	19.26
Natural gas (per Mcf)	**1.89**	1.99	1.40
Per BOE	**20.00**	19.94	16.21

Revenue Analysis

($ thousands)	
1993 Oil & Gas Revenues	4,929
Changes in revenue due to	
Increase in oil and NGL volumes	4,199
Increase in natural gas volumes	3,421
Increase in oil and NGL price	375
Decrease in natural gas price	(276)
1994 Oil & Gas Revenues	12,648

Royalties

Royalties, which include Crown, ARTC, freehold and over-rides paid on the Company's oil and gas production, increased 220% to $1.7 million in 1994. Our overall royalty rate increased from 11% to 13%. This increase was mainly the result of the Bigoray and Kaybob South acquisitions which have higher productivity gas wells resulting in higher royalties.

The ARTC increased 253% to $272,000 in 1994 from $77,000 in 1993. This increase is primarily the result of increased drilling activity in Pembina and Swalwell where the Company drilled six oil wells and two gas wells respectively. The Company claimed approximately $365,000 of qualifying royalties in 1994 of the available maximum allowable of $2 million. Since substantially all of the Company's 1995 exploration and development activities will be in Alberta, it is anticipated that the effective royalty rate, net of ARTC, will remain low in 1995.

Royalties

($ thousands)	**1994**	1993	1992
Crown	**1,562**	449	217
ARTC	**(272)**	(77)	(12)
Freehold	**407**	157	84
	1,697	529	289
% of sales	**13**	11	13

Operating Expenses

Total operating costs increased 85% to $4.1 million from $2.2 million in 1993. On a per unit basis, operating costs declined 28% to $6.56 from $9.06 in 1993. This decline reflects the impact of acquisitions which have a lower per BOE operating cost, increased production from drilling and reduced expenditures on workovers. As the majority of the Company's oil production comes from mature oil pools or from oil pools under waterflood, management considers current operating costs to be reasonable. However, as production rates increase and the Company develops its own facilities for gas processing, the operating costs per BOE are expected to decline further. In addition, in December 1994 the Company opened a field office in Drayton Valley to provide more timely and efficient operation of the Pembina and Bigoray properties.

Operating Expenses

	1994	1993	1992
Operating costs ($000's)	**4,145**	2,239	988
Per BOE ($)	**6.56**	9.06	7.03
% of Sales	**33**	45	44

Netbacks

Netbacks increased by 23% to $10.76 per BOE from $8.74 in 1993. This increase may be attributed to the sharp drop of $2.50 per BOE in operating costs offset by the increase of $0.66 in royalty costs. In 1995 netbacks are expected to decline as the impact of lower natural gas prices impacts revenues.

Netbacks

($ BOE)	**1994**	1993	1992
Sales	**20.00**	19.94	16.21
Royalties	**(3.11)**	(2.45)	(2.14)
ARTC	**0.43**	0.31	0.09
Operating expenses	**(6.56)**	(9.06)	(7.03)
Netback	**10.76**	8.74	7.13

General and Administrative

Gross general and administrative expenses increased 66% to $1.6 million from $0.9 million in 1993 and net G&A expenses increased 101% to $1.1 million from $0.6 million in 1993. However, on a BOE basis, net G&A has declined 21% to $1.74 from $2.21 in 1993. This trend is expected to continue as the Company has sufficient staff to provide for future growth.

In 1994 Saxon capitalized approximately 30% of total G&A spending.

General and Administrative

($ thousands)	**1994**	1993	1992
Gross G&A	**1,577**	950	659
Capitalized G&A	**(475)**	(403)	(383)
Net G&A expense	**1,102**	547	276
Per BOE ($)	**1.74**	2.21	1.96
% of Sales	**9**	11	12

Interest and Financing Costs

Interest and financing costs increased 141% to $588,000 from $244,000 in 1993. The increase in short term interest costs to $379,000 from $84,000 is attributable, in part, to $344,000 paid on the acquisition of the Stettler, Kaybob South and Bigoray properties. It is typical in the industry to charge interest on acquisitions from the effective date to the closing date. Financing fee amortization arises from the amortization of fees paid on the prepaid contracts. The increase in 1994 is the result of a full year amortization of the fees associated with the October 1993 prepaid contract and seven months amortization of the fees associated with the June 1994 prepaid contract.

Interest and Financing

($ thousands)	**1994**	1993	1992
Interest on long term debt	**106**	147	209
Interest on short term debt	**379**	84	-
Financing fee amortization	**103**	13	-
	588	244	209

Depletion and Depreciation

Depletion and depreciation increased in 1994 to $3.8 million, an increase of 385% versus $0.8 million in 1993. Depletion and depreciation per BOE increased 89% to $5.94 from $3.14 in 1993. This increase is attributed principally to the higher cost per BOE of the Bigoray acquisition since the Company did not have time to increase proved reserves through development drilling. The Company is confident that with the capital expenditure program planned for 1995 and the quality of the prospects to be drilled, depletion per BOE will decline.

Depletion and Depreciation

	1994	1993	1992
Depletion and depreciation ($000's)	**3,757**	775	346
Depletion and depreciation per BOE($)	**5.94**	3.14	2.45
Depletion rate (%)	**10**	5	5

Income Taxes

Although Saxon used flow-through shares to finance part of its drilling expenditures, the Company deferred all income taxes in 1994. The only current tax payable is a $49,400 obligation under the Large Corporations Tax.

Saxon's statutory income tax rate is approximately 44%. However, the Company's effective tax rate is approximately 12% as the result of rate reductions arising from resource allowance, ARTC, non-taxable income and other items, offset by rate increases caused by the non-deductibility of Crown royalties and non-deductible depletion and depreciation.

In 1995 it is expected that the effective tax rate will increase to approximately 40% as a result of the elimination of the non-recurring rate reductions arising from non-taxable income and other items.

Tax Pools at December 31, 1994

($ thousands)	
Canadian exploration expense	1,052
Canadian development expense	5,337
Canadian oil and gas property expense	14,522
Undepreciated capital cost	6,751
Non-capital losses	1,073
	28,735

Cash Flow and Net Income

Cash flow per share is the most accepted and utilized parameter in the valuation of oil and gas producers. Since 1992 the Company's cash flow per share has grown at an average annual compounded rate of 123%, resulting in a significant increase in shareholder value. In addition to strong cash flow growth, the Company has also shown a fourfold increase in return on equity to 10.6% in 1994 from 2.4% in 1993. This increase was achieved despite higher depletion expense.

Operating Cash Flow and Net Income

	1994	1993	1992
Cash flow from operations ($000's)	**5,170**	1,378	515
Per share ($)			
Basic	**0.15**	0.05	0.03
Fully diluted	**0.12**	0.05	0.03
Net income ($000's)	**1,129**	163	89
Per share ($)			
Basic and fully diluted	**0.03**	0.01	0.01
Return on equity (%)	**10.6**	2.4	2.4

Capital Expenditures and Finding and Development Costs

The 1994 capital program of $24.4 million was a 124% increase over the 1993 program of $10.9 million. Of particular note is the fourfold increase in drilling and completions to $7.5 million from $1.8 million in 1993. This reflects the evolution of Saxon from an acquisition orientation to a more balanced program of acquisitions plus exploration and development.

During the year Saxon made two significant acquisitions. In May 1994 the Company acquired producing oil and gas properties in the Stettler and Kaybob areas for approximately $2.3 million. An independent engineering report prepared at the time determined that the net proven reserves to Saxon, before royalties, were approximately 275,000 Bbls of oil and 2.0 Bcf of natural gas. In September 1994 Saxon completed the acquisition of producing oil and gas properties in the Bigoray area for approximately $11.5 million. An independent engineering report prepared at the time determined that the net proven reserves before royalties, were approximately 642,000 Bbls of oil and liquids and 10.2 Bcf of natural gas.

The Company also divested its unit interest at Gleneath for approximately $2.1 million.

The success or efficiency of the capital expenditures on a BOE basis is shown in the finding and development cost calculations. The Company's finding and development costs increased in 1994 due primarily to the Bigoray acquisition. Saxon's four year average finding and development costs of $3.52 per BOE compares favourably with the industry.

Saxon

Capital Expenditures and Finding and Development Costs

($ thousands, except where noted)	**1994**	1993	1992	1991	Four Year Total
Capital Expenditures					
Drilling and completions	**7,468**	1,847	120	8	9,443
Well equipment and facilities	**1,939**	841	35	5	2,820
Property acquisitions	**14,529**	7,788	2,858	2,346	27,521
Capitalized G & A	**475**	403	383	228	1,489
	24,411	10,879	3,396	2,587	41,273
Property dispositions	**(2,114)**	(57)	-	-	(2,171)
Net Capital Expenditures	**22,297**	10,822	3,396	2,587	39,102
Net reserve additions[(1)] (MBOE)					
Proven	**3,310**	3,218	849	877	8,254
Probable	**2,308**	592	(132)	80	2,848
Total reserve additions	**5,618**	3,810	717	957	11,102
Finding Costs per BOE ($)					
Proven	**6.74**	3.36	4.00	2.95	4.74
Proven and probable	**3.97**	2.84	4.74	2.70	3.52

(1) Discoveries plus acquisitions less dispositions and revisions.

Net Asset Value

Saxon's net asset value per share increased by 13% to $0.63 on a fully diluted basis versus $0.56 in 1993. This increase results primarily from a 65% increase in the value of the Company's risked oil and natural gas reserves to $44.9 million up from $27.2 million a year earlier, using a 15% discount factor before income tax.

Net Asset Value Per Share

($ thousands except per share)	**1994**	1993	1992
Reserves, risked and discounted at 15% before tax (1)	**44,930**	27,164	8,624
Undeveloped land (1)	**1,051**	-	-
Long term debt	**(54)**	-	(1,468)
Prepaid contracts (2)	**(16,921)**	(6,673)	-
Working capital (deficiency) (3)	**(1,202)**	(998)	(660)
Cash on exercise of stock options	**3,489**	846	263
Net asset value	**31,293**	20,339	6,759
Shares outstanding at December 31 (thousands) (4)			
Fully diluted	**49,720**	36,582	23,215
Net asset value per share ($)			
Fully diluted	**0.63**	0.56	0.29

(1) Total proven reserves and 50% of probable reserves based on Fekete Associates Inc. reserve report.

(2) Prepaid contracts are recorded at the 15% present value of the delivery obligation calculated using the reserve price forecasts. The value is lower than the contract obligation recorded on the balance sheet as the prices received under the contracts are higher than those used in the current reserve report.

(3) Excluding current portion of the prepaid contracts and long term debt.

(4) Fully diluted shares outstanding at December 31, 1994 include Common Shares outstanding plus all outstanding stock options.

Liquidity and Capital Resources

Saxon is capitalized through a combination of debt, prepaid contracts and shareholders' equity. During 1994 Saxon raised net prepaid contract financing of $13.2 million which was used to finance the Stettler/Kaybob and Bigoray acquisitions. This additional financing increased the Company debt to equity ratio to 1.8 : 1 from 1.2 : 1. In addition, the Company raised flow-through share financing of $1.9 million, before reductions resulting from the renouncement of tax benefits, and $2.6 million pursuant to a shareholder rights offering and issue of shares for oil and gas assets. The equity funds, together with operating cash flows, were used to fund the Company's exploration and development program.

On March 1, 1995 the Company received an additional $1.5 million pursuant to a short term demand loan facility.

Financing

($ thousands)	**1994**	1993	1992
Long term debt(1)	**54**	-	2,096
Prepaid contracts(1)	**20,884**	7,579	-
Deferred income taxes	**643**	545	156
	21,581	8,124	2,252
Shareholders' equity	**11,810**	7,014	3,843
Total financing	**33,391**	15,138	6,095
Debt/equity	**1.8**	1.2	0.6

(1) Includes the current portion.

BUSINESS RISKS AND PROSPECTS

Saxon is an oil and gas exploration and production company whose business is the acquisition of and exploration and development of oil and natural gas. These activities have inherent risks which Saxon strives to minimize.

Price, Exchange Rate and Interest Rate Risk

Saxon operates in an environment where the Company's outputs, oil and natural gas, are commodities which are subject to supply and demand fundamentals which are outside its control. In order to mitigate potential wide fluctuations in revenues due to varying commodity prices, Saxon uses three basic arrangements: gas sales contracts, prepaid contracts and commodity hedges. Gas sales contracts are signed with aggregators and/or industrial customers for varying periods of 30 days to 12 months. These contracts provide for the physical delivery of a quantity of gas at either a fixed or variable price with payment monthly.

Prepaid contracts involve the payment, in advance, to Saxon for future delivery of oil and natural gas. The Company, at December 31, 1994, is obligated to deliver approximately 626,000 barrels of oil and 5.4 Bcf of gas over the next seven years. Amounts received for prepaid contracts are recorded as deferred revenue, which is amortized as sales are recorded based upon the scheduled deliveries under the production payment agreements. The purchaser of the prepaid volumes determines the amount paid to the Company for the prepaid contract by calculating the net present value of the scheduled deliveries using the purchaser's assumed future prices for oil and natural gas and foreign exchange. However, the sales price per Mcf or Bbl recorded by the Company upon delivery of scheduled volumes is determined by dividing the net proceeds from the prepaid contract by the total volumes scheduled to be delivered. This price is therefore fixed at the inception of the payment. There is no interest expense recorded with respect to prepaid contracts; the interest factor effectively having been netted against the calculated sales price. In addition, the Company must pay applicable royalties on volumes delivered and is responsible for production-related costs associated with operating the properties. The delivery obligations are heavily weighted to the initial years of the contracts with approximately 48% of the oil and natural gas scheduled deliveries occurring in 1995 and 1996. As a result of these arrangements, the Company is recognizing prices of $1.61 to $2.02 per MMBTU of natural gas and $17.38 to $19.10 per Bbl of oil.

Prepaid Contract Volumes[1]

(%)	1995	1996	1997
Scheduled deliveries	32	21	19
Undedicated deliveries	68	79	81
Total production[2]	100	100	100

(1) Converted to BOE using 10 Mcf of natural gas to 1 Bbl of oil.

(2) Based on the December 31, 1994 Fekete Associates Inc. report of proved and probable production.

In addition to the volumes of oil and natural gas scheduled for delivery under the prepaid contracts, the Company has also used energy swaps and other financial agreements to hedge against the effects of fluctuations in the sales price of oil and natural gas. In a typical swap agreement, the Company receives the difference between a fixed price per unit of production and a price based on an agreed upon third party index if the index price is lower. If the index price is higher, the Company pays the difference. The swaps are typically settled monthly. There is no obligation to deliver volumes under these agreements, although the Company endeavours to match anticipated production to these agreements. At December 31, 1994 the Company had oil swaps for an aggregate of 1,000 BOPD to October 31, 1995 at fixed prices in the range of $16.35 to $16.40 US per Bbl ($23.10 @ $0.71 US/Cdn exchange). From November 1, 1995 to June 30, 1996 Saxon has an oil swap for an aggregate of 500 BOPD at a fixed price of $16.35 US. The third party index used in the above swaps is the NYMEX Light Sweet Crude Oil Futures Contract. At December 31, 1994 the Company had no natural gas swaps in place.

Environment and Safety

Saxon is committed to the protection and maintenance of the environment throughout our operations and has adopted a formal environmental policy. We recognize that our field operations have an impact on the local environment, and have committed to minimize this impact and to reclaim all areas when our operations are completed. Saxon conducts its operations utilizing the Environmental Operating Guidelines for the Alberta Petroleum Industry as a guide and the Company is in material compliance with current environmental laws and regulations.

Saxon conducts an environmental audit on all its acquisitions. In addition, we have designed a formal emergency response plan which details the procedures which our employees and contractors will follow in the event of an operations emergency. The program is designed to respond to emergencies in order that the safety of our employees, contractors, residents in the vicinity of our field activities, the general public and the environment are protected.

Business Prospects

Saxon enters 1995 with a focus on exploring for and developing oil potential in Alberta where the Company can benefit from higher current commodity prices and from royalty reductions through the use of the ARTC. Notwithstanding the current environment of weak natural gas prices there are some very favourable opportunities to acquire producing properties or undeveloped lands at attractive long term returns.

REPORT OF MANAGEMENT

The Board of Directors is responsible for the Consolidated Financial Statements but has delegated responsibility for their preparation to management.

The Consolidated Financial Statements have been prepared by management in accordance with generally accepted accounting principles. If alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has ensured that the Consolidated Financial Statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the Consolidated Financial Statements.

Saxon maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for reviewing and approving the Consolidated Financial Statements and Management's Discussion and Analysis and, primarily through its audit committee, ensures management fulfills its responsibilities for financial reporting.

The audit committee is appointed by the board and is composed of a majority of directors who are not employees of the Company. The committee meets periodically with management, and annually with the external auditors, to discuss internal controls and reporting issues, and to satisfy itself that each party is properly discharging its responsibilities. It reviews the Consolidated Financial Statements and the external auditors' report. The committee also considers, for review by the board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The Consolidated Financial Statements have been audited by KPMG Peat Marwick Thorne, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. KPMG Peat Marwick Thorne has full and free access to the audit committee.

G A Tarrant

Glen A. Tarrant,
President and Chief Executive Officer

William A. Brebber,
Chief Financial Officer and Treasurer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Saxon Petroleum Inc. as at December 31, 1994 and 1993 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and 1993 and the results of its operations and the changes in its cash flows for the years then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

Calgary, Canada
March 10, 1995

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

December 31

	1994	1993
ASSETS		
Current		
Cash and deposits	**$ 1,602,466**	$ 568,297
Accounts receivable	**1,397,859**	1,236,631
Prepaid expenses	**178,563**	82,811
	3,178,888	1,887,739
Property, plant and equipment (note 3)	**34,747,731**	16,210,958
TOTAL ASSETS	**$ 37,926,619**	$ 18,098,697
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 4,381,189**	$ 2,886,384
Current portion of prepaid contracts (note 5)	**5,645,269**	2,548,788
Current portion of long term debt (note 4)	**16,627**	-
	10,043,085	5,435,172
Long term debt (note 4)	**37,623**	-
Prepaid contracts (note 5)	**15,237,727**	5,029,735
Provision for future site restoration	**154,900**	74,900
Deferred income taxes	**643,229**	544,530
	26,116,564	11,084,337
SHAREHOLDERS' EQUITY		
Share capital (note 6)	**10,364,959**	6,698,531
Retained earnings	**1,445,096**	315,829
	11,810,055	7,014,360
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 37,926,619**	$ 18,098,697

See accompanying notes.

On behalf of the Board:

Hugh J. Davis
Director

G A Tarrant
Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31

	1994	1993
REVENUE		
Petroleum and natural gas sales	**$ 12,647,921**	$ 4,928,833
Royalties	**(1,968,740)**	(605,912)
Alberta royalty tax credit	**272,976**	76,967
	10,952,157	4,399,888
EXPENSES		
Operating	**4,145,412**	2,238,805
General and administrative	**1,101,625**	547,014
Depletion and depreciation	**3,837,013**	813,250
Interest and financing (notes 4 and 5)	**587,742**	244,154
	9,671,792	3,843,223
Income before income taxes	**1,280,365**	556,665
Income taxes (note 7)	**151,098**	393,282
NET INCOME	**1,129,267**	163,383
RETAINED EARNINGS, beginning of year	**315,829**	152,446
RETAINED EARNINGS, end of year	**$ 1,445,096**	$ 315,829
EARNINGS PER SHARE		
Basic	**$ 0.03**	$ 0.01
Fully diluted	**$ 0.03**	$ 0.01

See accompanying notes.

Saxon

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

	1994	1993
Cash provided by (used in)		
OPERATING		
Net income	$ 1,129,267	$ 163,383
Depletion and depreciation	3,837,013	813,250
Financing fee amortization	102,510	12,584
Deferred income taxes	101,698	388,900
Cash flow from operations	5,170,488	1,378,117
Changes in non-cash working capital	5,520	279,414
	5,176,008	1,657,531
FINANCING		
Prepaid contracts (net of repayments)	13,201,963	7,565,939
Issue of common shares (net of issue costs)	3,666,428	3,007,638
Long term debt	54,250	(2,095,950)
	16,922,641	8,477,627
INVESTING		
Property, plant and equipment additions, net of disposals	(22,296,785)	(9,472,444)
Subsidiary acquisition	-	(1,350,000)
Changes in non-cash working capital	1,232,305	1,215,844
	(21,064,480)	(9,606,600)
NET INCREASE IN CASH	1,034,169	528,558
Cash and deposits, beginning of year	568,297	39,739
CASH AND DEPOSITS, END OF YEAR	$ 1,602,466	$ 568,297
CASH FLOW FROM OPERATIONS		
Basic	$ 0.15	$ 0.05
Fully diluted	$ 0.12	$ 0.05

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1994 and 1993

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the accounts of Saxon Petroleum Inc. and its wholly-owned subsidiaries.

Substantially all of the exploration and production activities of the Company are conducted jointly with other non-affiliated companies and accordingly the consolidated accounts reflect only the Company's proportionate interest in such activities.

(b) Petroleum and natural gas properties

The full cost method of accounting is followed for petroleum and natural gas properties whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisitions, geological and geophysical activities, lease rentals on undeveloped properties, the drilling of productive and non-productive wells, and directly related overhead charges.

Costs are accumulated in one cost centre representing activity in Canada. Total capitalized costs plus a provision for future development costs of proved undeveloped reserves are depleted and depreciated using the unit-of-production method, based on estimated proved oil and gas reserves (before royalties) as determined by independent engineers. For purposes of the depletion and depreciation calculation, proved oil and gas reserves and production volumes (before royalties) are converted to a common unit of measure on the basis of their approximate relative energy content. Depreciation of gas plants is charged to income on a declining balance basis at an annual rate of four percent.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized unless the sale would significantly alter the rate of depletion and depreciation.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the ultimate recoverable amount from future net revenues using proved reserves and year end prices, plus the net costs of major development projects and unproved properties less future removal and site restoration costs, overhead, financing costs, and income taxes. If the net carrying costs exceed the ultimate recoverable amount, additional depletion and depreciation is provided.

(c) Future abandonment and site restoration costs

Estimated future abandonment and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each year by management in consideration with the Company's engineer based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation expense and actual abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1994 and 1993

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Prepaid contracts

Advance payments received under prepaid contracts for oil and gas which is not delivered are deferred and are recognized as revenue when deliveries are made. Revenue is recognized on a straight line basis by dividing the advance payment by the total contracted volumes.

Fees incurred in the course of entering into the prepaid contracts are deferred. Annual charges are provided for on the unit of delivery basis and are included as financing costs for the year.

(e) Earnings per share

Basic earnings per share and basic cash flow from operations per share have been calculated using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share and fully diluted cash flow from operations per share have been calculated using the weighted average number of common shares outstanding during the year and assuming outstanding options are converted at the beginning of the year if outstanding on that date and on the date of issuance if issued during the period.

(f) Financial instruments

The Company periodically enters into contracts to reduce its exposure to price declines on a portion of its oil and natural gas production. Gains or losses on these contracts are reported as adjustments to revenue in the related production month.

(g) Comparative amounts

Certain comparative amounts have been reclassified to conform to the current year's presentation.

2. BUSINESS ACQUISITIONS

Effective May 1, 1993, the Company acquired 100% of the outstanding shares of a private oil and gas company for $1,350,000 financed by the issue of 3,000,000 common shares of the Company (note 5). The purchase method of accounting was used and the results of operations were consolidated with those of Saxon Petroleum Inc. from May 1, 1993. The total purchase price of this acquisition has been allocated to petroleum and natural gas properties based on fair values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1994 and 1993

3. PROPERTY, PLANT AND EQUIPMENT

1993	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas rights	$13,915,209	$1,771,891	$12,143,318
Production equipment	4,629,455	585,693	4,043,762
Furniture and fixtures	31,714	7,836	23,878
	$18,576,378	$2,365,420	$16,210,958

1994	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas rights	$30,865,536	$4,714,235	$26,151,301
Production equipment	9,846,073	1,377,195	8,468,878
Furniture and fixtures	158,555	31,003	127,552
	$40,870,164	$6,122,433	$34,747,731

During the year, overhead charges relating to acquisition, development and exploration activities of $475,299 (1993 - $403,000) were capitalized.

Petroleum and natural gas properties with a net book value of $3,800,000 (1993 - $2,200,000) have no cost base for income tax purposes.

The provision for future abandonment and site restoration amounted to $80,000 (1993 - $38,000). In calculating the depletion provision for 1994, $152,000 (1993 - $100,000) of costs relating to unproved properties were excluded from costs subject to depletion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1994 and 1993

4. LONG TERM DEBT

On December 13, 1994 the Company entered into a $54,250 three year capital lease on certain computer equipment. The obligation is repayable in monthly payments of $1,795, including interest at 11.48 percent, until December 1, 1997.

During the year the Company completed a $2,000,000 syndicated loan, due January 1, 2000, with interest at eight percent. In consideration for the syndicated loan the Company granted options to purchase 4,000,000 common shares at a price of $0.50 per share for a period of two years from the date of the loan. The options will be extended for one additional year if the shares of the Company have not traded at a price of $0.55 or more for fifteen consecutive trading days in the second year of the option period. The loan was retired with prepaid contract proceeds in June 1994.

Also during the year the Company completed a $1,200,000 term loan, due September 30, 1995, with interest at prime plus three percent. In consideration for the term loan the Company granted options to purchase 562,500 shares at a price of $0.75 per share to December 31, 1996. The loan was retired with prepaid contract proceeds in September 1994.

During the year the Company paid $106,275 (1993 - $147,498) of interest on these long term debts.

5. PREPAID CONTRACTS

The Company has entered into a series of prepaid contracts for future delivery of oil and natural gas covering varying periods of one to seven years. The Company's scheduled delivery obligations of oil and natural gas and the corresponding annual amortization is as follows

	Scheduled Deliveries		
	Oil (Bbls)	Natural Gas (MMBTU)	Annual Amortization
1995	164,833	1,531,540	$ 5,645,269
1996	136,884	1,200,114	4,531,510
1997	111,325	940,970	3,603,448
1998	89,060	733,650	2,837,794
1999	60,928	560,249	2,018,285
Thereafter	62,595	746,325	2,246,690
	625,625	5,712,848	$20,882,996

In 1994, $102,510 of prepaid contract fees were amortized and recorded as financing costs (1993 - $12,584).

The Company's obligations to deliver oil and natural gas under the contracts are secured by demand debentures in aggregate of $50,000,000 U.S. and first floating charges over certain petroleum and natural gas properties.

6. SHARE CAPITAL

The authorized share capital consists of an unlimited number of common and preferred shares.

COMMON SHARES	Shares	Amount
Balance, December 31, 1992	21,465,426	$3,690,893
Issued for cash		
Flow-through shares	6,459,999	2,003,000
Employee options	50,000	7,500
Conversion of debentures	2,080,000	420,000
Acquisition of subsidiary (note 2)	3,000,000	1,350,000
For petroleum and natural gas properties	401,767	114,138
Tax benefits renounced	-	(887,000)
Balance, December 31, 1993	33,457,192	6,698,531
Issued for cash		
Syndicated loan options	100,000	50,000
Employee options	175,000	26,250
Flow-through shares	3,003,500	1,892,100
Rights offering	4,400,175	2,296,666
For petroleum and natural gas properties	425,714	252,857
Purchased for cancellation	(26,000)	-
Tax benefits renounced	-	(851,445)
Balance December 31, 1994	**41,535,581**	**$10,364,959**

Pursuant to the flow-through share agreements, the Company has incurred and renounced all required expenditures.

At December 31, 1994, pursuant to the employee share option plan, the Company has outstanding 3,722,000 (1993 - 3,125,000) options with exercise prices of $0.15 to $0.48. These options expire between September 16, 1997 and November 1999.

In addition, 3,900,000 options at $0.50 are outstanding at December 31, 1994 pursuant to the terms of the syndicated loan agreement and 562,500 options at $0.75 are outstanding pursuant to the term loan agreement (note 4).

The syndicated loan options expire between January 27, 1996 and February 22, 1996, unless the shares of the Company have not traded at a price of $0.55 per share or more for 15 consecutive trading days during the second year of the option, in which case the option term is extended a further year.

The term loan options expire December 31, 1996.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1994 and 1993

7. INCOME TAXES

Income tax expense differs from the amounts which would be obtained by applying the statutory income tax rate to the respective years before tax income. The following explains the differences between expected taxes and actual taxes

	1994	1993
Income before income taxes	**$1,280,365**	$552,283
Statutory income tax rate	44.3%	44.3%
Expected income tax expense	**$ 567,717**	$244,900
Add (deduct) the tax effect of:		
Non-deductible Crown royalties	**646,930**	265,100
Alberta royalty tax credit	**(121,038)**	(29,600)
Resource allowance	**(727,737)**	(146,200)
Non-deductible depletion and depreciation	**143,917**	61,900
Non-taxable income	**(243,507)**	-
Other	**(164,584)**	(7,200)
Deferred income taxes	**101,698**	388,900
Capital taxes	**49,400**	4,382
Income taxes	**$ 151,098**	$393,282

8. RELATED PARTY TRANSACTIONS

The Company received $400,000 of the total $2,000,000 syndicated loan from officers and directors. In addition, officers and directors subscribed for flow-through shares in the amount of $359,050. The loans and flow-through shares were received on the same terms and conditions as third parties.

9. SUBSEQUENT EVENT

On March 1, 1995, the Company received a $1,500,000 demand loan. The loan bears interest at prime plus three percent, payable monthly. If the loan remains outstanding after December 31, 1995, interest will be payable monthly at prime plus eight percent.

The Company has granted a second charge on the petroleum and natural gas properties as security for the loan.

FIVE YEAR SUMMARY

($ thousands, except per share)	**1994**	1993	1992	1991	1990
FINANCIALS					
Balance Sheet					
Current assets	**3,179**	1,888	339	249	213
Current liabilities	**(4,381)**	(2,886)	(371)	(259)	(236)
Working capital[1]	**(1,202)**	(998)	(32)	(10)	(23)
Property, plant and equipment	**34,748**	16,211	6,164	3,109 [2]	386
Provision for future site restoration	**(155)**	(75)	(37)	(21)	-
Capital employed	**33,391**	15,138	6,095	3,078	363
Long term obligations[1]	**20,938**	7,579	2,096	1,599	-
Deferred income taxes	**643**	545	156	75	5
Shareholders' equity	**11,810**	7,014	3,843	1,404	358
Financing sources	**33,391**	15,138	6,095	3,078	363
Results of Operations					
Revenue (net of royalties)	**10,952**	4,400	1,989	1,465	157
Expenses	**9,672**	3,843	1,819	1,351	116
Income before taxes	**1,280**	557	170	114	41
Income taxes	**151**	393	81	8	-
Net income	**1,129**	164	89	106	41
Cash flow from operations	**5,170**	1,378	515	304	57
Capital expenditures	**22,297**	10,822	3,396	2,587	402
Per common share (basic)					
Net income	**0.03**	0.01	0.01	0.04	0.01
Cash flow from operations	**0.15**	0.05	0.03	-	0.01
OPERATIONS					
Product sales					
Oil (BOPD)	**1,018**	434	241	191	12
Natural gas (Mcf/d)	**7,143**	2,433	1,440	926	70
BOE (/d)	**1,732**	677	385	284	19
Product prices					
Oil ($/Bbl)	**20.75**	19.70	19.26	16.80	NA
Natural gas ($/Mcf)	**1.89**	1.99	1.40	0.95	NA
Reserves (proved and probable)					
Crude oil and NGL's (MBbls)	**6,880**	3,541	967	842	79
Natural gas (MMcf)	**33,199**	16,728	6,853	2,333	1,436

(1) Excludes current portion of long term obligations which is included in financing sources as a long term obligation.

(2) Net of $328,000 minority interest.

SHAREHOLDER INFORMATION

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Chairman of the Board

Glen A. Tarrant
President

William J. Wylie
Vice-President

Martha G. Billes

E. Diane Johnson

Daryl E. Birnie

Gene R. Vennard

OFFICERS

Hugh J. Davis
Chairman of the Board

Glen A. Tarrant
President and Chief Executive Officer

William J. Wylie
Vice-President

William A. Brebber
Treasurer and Chief Financial Officer

Richard A. Wilson, Q.C.
Corporate Secretary

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EXCHANGE LISTING
The Alberta Stock Exchange

STOCK SYMBOL
Common Shares: **SXN**

Saxon
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